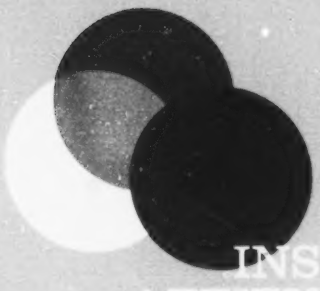

INSTITUTIONAL ATTITUDE SURVEY

CONDUCTED BY:
INSTITUTIONAL COMMITTEE AND RESEARCH DEPARTMENT
SECURITIES INDUSTRY ASSOCIATION

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FOREWORD

Last fall, the Securities Industry Association's (SIA) Research Department, with the assistance of its Institutional Committee, undertook a survey of financial institutions in order to evaluate their opinions on the structural changes that have taken place in the securities industry over the past few years. It was hoped that such a survey would enable SIA's Board of Directors to be in a better position to re-examine current policies and evaluate future policies by taking into account the views of important customers of the securities industry.

Included in the survey was a broad range of financial institutions, including bank trust departments, investment advisors, insurance companies, open-end investment companies and self-administered pension funds. Over 150 institutions responded and their answers were categorized by type of institution and amount of money managed. An analysis of the survey follows.

Edward I. O'Brien
President
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SIA Institutional Committee

INSTITUTIONAL ATTITUDE SURVEY

The SIA "Institutional Attitude Study" is a survey of over 150 financial institutions on their attitudes towards the structural and fundamental changes occurring in the brokerage industry. The questionnaire, which appears in Appendix A, was composed of ten questions, mainly addressing three broad topics: research, concentration and liquidity, and the awareness of institutional managers of changes taking place in the securities industry.

The major findings of the study were:

— Institutions rely heavily on securities industry research. In fact, about 90% found that the research generated by brokerage firms is an important source of new investment ideas and/or a confirmation of internal research.

— Nearly 60% of the institutions responded that they pay higher commissions for research.

— Overwhelmingly, the institutions surveyed felt the securities industry's capital committing activities are necessary in providing liquidity in both stocks and bonds. In both cases, nearly 85% of the respondents felt commitment of capital by brokerage firms important.

— Liquidity in all blocks except those under 10,000 shares for large capitalization companies has deteriorated relative to that which existed prior to Mayday. This is particularly true for small capitalization listed issues and over-the-counter companies.

— Very few money managers, less than 15%, felt they were well-informed regarding the structural changes occurring in the securities industry and how they affect institutional investors and the capital markets.

1 Which of the following best describes the your organization towards the investment

BY TYPE OF INSTITUTION

	BANK TRUSTS	INSURANCE COMPANIES	INVESTMENT ADVISORS	PENSION FUNDS	MUTUAL FUNDS	TOTAL
Additional Source Of New Investment Ideas	71.0%	50.0%	51.7%	50.0%	62.5%	60.5%
Opportunity To Confirm Internal Research	15.9	25.0	6.9	28.6	12.5	17.1
Source Of New Ideas And Confirmation Of Internal Research	4.3	12.5	34.4	0	12.5	11.8
Nice, But Not Essential	8.7	12.5	3.4	21.4	0	9.2
Serves No Useful Purpose	0	0	3.4	0	0	0.7
No Response	0	0	0	0	12.5	0.7

■ When looking at the responses for all institutions surveyed, about 90% found securities industry research an important source of new investment ideas and/or a confirmation of internal research. This is particularly true for bank trust departments and investment advisors where the figures reached over 90%. Less than 10% of the reporting institutions found research not essential. About 20% of the self-administered pension funds found research not essential. In many of these institutions, the portfolio manager deciding on investment strategy also conducts his or her own analysis.

attitude of
research service of brokerage firms?

BY SIZE OF INSTITUTION

	UNDER $100 MILLION	$100-$250 MILLION	$250-$500 MILLION	BETWEEN $500 MIL.-$1 BIL.	OVER $1 BILLION	TOTAL
Additional Source Of New Investment Ideas	80.0%	69.0%	59.1%	62.5%	50.0%	60.5%
Opportunity To Confirm Internal Research	0	24.1	18.2	6.3	24.1	17.1
Source Of New Ideas And Confirmation Of Internal Research	20.0	3.4	9.1	15.6	13.0	11.8
Nice But Not Essential	0	3.4	13.6	9.4	13.0	9.2
Serves No Useful Purpose	0	0	0	3.1	0	0.7
No Response	0	0	0	3.1	0	0.7

■ Institutions of all size viewed research as either an important source of new investment ideas or a vehicle to confirm their own internal research. Even the very largest institutions—those managing assets exceeding $1 billion—found research provided by securities firms invaluable. Only 13% of these organizations found the securities industry's research not essential to their operation. None of the smallest institutions, those managing assets under $100 million, dismissed the research provided by broker/dealers as unimportant. In general, those institutions with more limited internal research facilities were more dependent on broker/dealers for research ideas and advice.

2 Do you pay higher commissions for research?

BY TYPE OF INSTITUTION

	BANK TRUSTS	INSURANCE COMPANIES	INVESTMENT ADVISORS	PENSION FUNDS	MUTUAL FUNDS	TOTAL
Yes, Definitely	30.4%	31.3%	34.4%	21.4%	12.5%	29.6%
Occasionally, But Modestly	29.0	31.3	27.6	21.4	12.5	27.6
Yes, Definitely But Occasionally	0	3.1	0	7.1	12.5	2.0
Unnecessary, We Receive Anyway	33.3	34.4	27.6	35.7	62.5	34.2
Lawyers Still Studying Sec. 28 (e)	4.3	0	3.4	7.1	0	3.3
No Response	2.9	0	6.9	7.1	0	3.3

In examining whether institutions pay higher commissions for research, the survey found nearly 60% "pay up." However, given the fact that 90% of the institutions find the brokerage industry's research essential (Answer #1), it is noteworthy that nearly 35% of the institutions responded they do not have to pay higher commissions for research as they receive it anyway. Also, as only 3% of their legal representatives continue to study section 28(e), "paying up" may no longer be a real legal concern. The answers to this question were almost unanimously uniform within all institutional categories.

BY SIZE OF INSTITUTION

	UNDER $100 MILLION	$100-$250 MILLION	$250-$500 MILLION	BETWEEN $500 MIL.-$1 BIL.	OVER $1 BILLION	TOTAL
Yes, Definitely	46.7%	20.7%	27.3%	40.6%	24.1%	29.6%
Occasionally, But Modestly	20.0	31.0	40.9	12.5	31.5	27.6
Yes, Definitely But Occasionally	6.7	0	0	3.1	1.9	2.0
Unnecessary, We Receive Anyway	13.3	41.4	27.3	37.5	37.0	34.2
Lawyers Still Studying Sec. 28 (e)	6.7	3.4	4.5	3.1	1.9	3.3
No Response	6.7	3.4	0	3.1	3.7	3.8

■In all size categories, at least 50% of the institutions reported that they "pay up" for research services occasionally or frequently. However, over one-third of the institutions receive research without any obligation to pay up. While almost 47% of the smallest institutions reported that they pay up consistently, less than 25% of the largest institutions did so. Although there was wide variation in behavior towards paying for research by the smallest and largest institutions, the differences were blurred when other size categories were tabulated.

3 Do you feel that a strong statement by would help clarify the protection for

BY TYPE OF INSTITUTION

	BANK TRUSTS	INSURANCE COMPANIES	INVESTMENT ADVISORS	PENSION FUNDS	MUTUAL FUNDS	TOTAL
Yes, By Comptroller	24.6%	0 %	3.4%	0 %	0 %	11.8%
Yes, By SEC	15.9	59.4	62.1	35.7	62.5	38.2
Yes, By Comptroller And SEC	27.5	9.4	20.7	21.4	0	20.4
No Statement Necessary	18.8	21.9	13.8	35.7	25.0	20.4
Don't Know	13.0	9.4	0	7.1	12.5	9.2

■ In somewhat of a contradiction to the answer to Question #2, respondents feel a definite need for clarification of the pay up statement of Section 28(e). Over 70% of the institutions surveyed felt it would be helpful if the Comptroller of the Currency and/or the SEC made a stronger statement on this Section. Only self-administered pension funds believed with some conviction that no statement was necessary (35.7%).

one of the following
"paying up" of Section 28 (e)?

BY SIZE OF INSTITUTION

	UNDER $100 MILLION	$100-$250 MILLION	$250-$500 MILLION	BETWEEN $500 MIL.-$1 BIL.	OVER $1 BILLION	TOTAL
Yes, By Comptroller	13.3%	27.6%	13.6%	12.5%	1.9%	11.8%
Yes, By SEC	20.0	24.1	45.5	43.8	44.4	38.2
Yes, By Comptroller And SEC	53.3	24.1	13.6	12.5	16.7	20.4
No Statement Necessary	6.7	13.8	18.2	18.8	29.6	20.4
Don't Know	6.7	10.3	9.1	12.5	7.4	9.2

■In general, the need for a statement by the Comptroller of the Currency or the SEC concerning paying up for research was considered more essential by the smaller institutions. Over 70% of the institutions managing assets under $500 million believe that a statement from at least one of these two regulators would be helpful. Only 20% of all reporting institutions believe no further statement on 28(e) is needed to clarify institutional practices with regard to payments for research. The type of institution is more important than size in determining whether clarification from the Comptroller or SEC is desired.

4 How important do you think Wall Street's toward providing liquidity for securities

BY TYPE OF INSTITUTION

EQUITIES	BANK TRUSTS	INSURANCE COMPANIES	INVESTMENT ADVISORS	PENSION FUNDS	MUTUAL FUNDS	TOTAL
Extremely Important	33.3%	28.1%	44.8%	14.3%	25.0%	32.2%
Important	53.6	53.1	44.8	57.1	75.0	53.3
Helpful, Not Important	10.1	15.6	10.3	21.4	0	11.8
Unimportant	0	3.1	0	0	0	0.7
No Response	2.9	0	0	7.1	0	2.0
FIXED INCOME						
Extremely Important	52.2%	40.6%	44.8%	14.3%	62.5%	45.4%
Important	34.8	43.6	37.9	50.0	25.0	38.2
Helpful, Not Important	7.2	6.3	3.4	35.7	0	8.6
Unimportant	1.4	3.1	0	0	0	1.3
No Response	4.3	6.3	13.8	0	12.5	6.6

■Overwhelmingly, institutions felt that capital committing activities are important toward providing liquidity for transactions in both equities and fixed income securities. Over 85% felt this way about equities with 32% believing that capital commitment is "extremely important."

With regard to fixed income securities, the feeling was equally strong. Of the almost 85% who felt that the function of trading out of inventory was important, over 45% said they thought it "extremely important."

capital committing activities are
transactions in equities and fixed income securities?

BY SIZE OF INSTITUTION

EQUITIES	UNDER $100 MILLION	$100-$250 MILLION	$250-$500 MILLION	BETWEEN $500 MIL.-$1 BIL.	OVER $1 BILLION	TOTAL
Extremely Important	33.3%	31.0%	40.9%	37.5%	25.9%	32.2%
Important	46.7	58.6	45.5	50.0	57.4	53.3
Helpful, Not Important	20.0	3.4	13.6	9.4	14.8	11.8
Unimportant	0	0	0	0	1.9	0.7
No Response	0	6.9	0	3.1	0	2.0
FIXED INCOME						
Extremely Important	33.3%	37.9%	54.5%	59.4%	40.7%	45.4%
Important	46.7	41.4	27.3	28.1	44.4	38.2
Helpful, Not Important	6.7	6.9	13.6	9.4	7.4	8.6
Unimportant	6.7	0	0	0	1.9	1.3
No Response	6.7	13.8	4.5	31.1	5.6	6.6

■ Within each size category, the distribution of answers to this question was about the same. Institutions attach great importance to firms' willingness to provide capital, thereby increasing liquidity in trading both fixed income and equity securities. The institutions managing funds of under $100 million display somewhat less dependence on broker/dealers' market-making activities, as is suggested by 20% of that category's answering that capital committing activities are "helpful, not important" for equity transactions. This view may in part be due to the fact that the smaller institutions do not trade in size so that positioning by broker/dealers is not required.

5 Do broker/dealers who presently commit principal activities provide sufficient

BY TYPE OF INSTITUTION

	BANK TRUSTS	INSURANCE COMPANIES	INVESTMENT ADVISORS	PENSION FUNDS	MUTUAL FUNDS	TOTAL
Large Capitalization Cos.						
Under 10,000 Shares	60.9%	53.1%	65.5%	50.0%	75.0%	59.9%
10-25,000 Shares	40.6	43.8	62.1	50.0	62.5	47.4
Over 25,000 Shares	23.2	31.3	41.4	28.6	50.0	30.3
Small Capitalization Cos.						
Under 10,000 Shares	46.4%	43.8%	48.3%	35.7%	75.0%	46.7%
10-25,000 Shares	17.4	31.3	24.1	21.4	25.0	22.4
Over 25,000 Shares	1.4	15.6	17.2	7.1	0	7.9
OTC Companies						
Under 10,000 Shares	46.4%	18.8%	44.8%	7.1%	75.0%	38.2%
10-25,000 Shares	11.6	15.6	20.7	7.1	12.5	13.8
Over 25,000 Shares	1.4	6.3	17.2	0	12.5	5.9
No Response	37.7%	43.8%	31.0%	50.0%	0 %	36.8%

■The responses to this question proved to be some of the most revealing in the survey. As industry spokesmen have frequently alleged, but have heretofore been unable to prove, financial institutions overwhelmingly stated that for all size blocks there is insufficient liquidity relative to pre-Mayday for smaller capitalized companies and over-the-counter companies. In fact, only for trades under 10,000 shares for the large companies did over half the respondents believe there was as much liquidity as existed prior to Mayday. For all other block trades including trades of over 10,000 shares for larger capitalized companies, liquidity has deteriorated. This explains, to some degree, the increased volatility of the equities market in recent years.

capital to
liquidity relative to pre-Mayday?

BY SIZE OF INSTITUTION

	UNDER $100 MILLION	$100-$250 MILLION	$250-$500 MILLION	BETWEEN $500 MIL.-$1 BIL.	OVER $1 BILLION	TOTAL
Large Capitalization Cos.						
Under 10,000 Shares	53.3%	31.0%	59.1%	75.0%	68.5%	59.9%
10-25,000 Shares	26.7	24.1	40.9	59.4	61.1	47.4
Over 25,000 Shares	20.0	10.3	22.7	34.4	44.4	30.3
Small Capitalization Cos.						
Under 10,000 Shares	20.0%	27.6%	45.5%	65.6%	53.7%	46.7%
10-25,000 Shares	13.3	6.9	18.2	34.4	27.8	22.4
Over 25,000 Shares	6.7	0	4.5	6.3	14.8	7.9
OTC Companies						
Under 10,000 Shares	26.7%	34.5%	40.9%	56.3%	31.5%	38.2%
10-25,000 Shares	13.3	10.3	13.6	18.8	13.0	13.8
Over 25,000 Shares	6.7	6.9	4.5	6.3	5.6	5.9
No Response	46.7%	55.2%	40.9%	25.0%	29.6%	36.8%

■Larger institutions (over $500 million) seem to be less concerned than smaller institutions about a decline in liquidity relative to pre-Mayday levels. For example, a majority of institutions in the $500 million-$1 billion range (75%) find no decline in the liquidity of a small block of a large capitalized company, while only 31% of the $100-$250 million institutions did not report a decline. A majority of institutions over $500 million find adequate liquidity in transactions involving under 10,000 shares of small capitalized companies but not in larger blocks of smaller capitalized companies or OTC stocks generally.

6 Do you ask that bond business and/or included in measuring the profitability

BY TYPE OF INSTITUTION

	BANK TRUSTS	INSURANCE COMPANIES	INVESTMENT ADVISORS	PENSION FUNDS	MUTUAL FUNDS	TOTAL
Bonds						
Yes	68.1%	65.6%	58.6%	57.1%	25.0%	62.5%
No	21.7	25.0	31.0	35.7	62.5	27.6
No Response	10.1	9.4	10.3	7.1	12.5	9.9
Underwriting						
Yes	72.5%	65.6%	65.5%	64.3%	37.5%	67.1%
No	17.4	25.0	24.1	28.6	50.0	23.0
No Response	10.1	9.4	10.3	7.1	12.5	9.9

■ The majority (over 60%) of institutions surveyed asked that bond business and/or underwriting be included in measuring the profitability of the brokerage firm's equity securities relationship. This held true for all types of institutions. In other words, most financial institutions view their relationship with brokerage firms as a total one not segmented by product line. This has important implications for brokers who attempt to determine their profit centers by allocating revenues and expenses.

underwriting should also be
of a firm's equity securities relationship?

BY SIZE OF INSTITUTION

	UNDER $100 MILLION	$100-$250 MILLION	$250-$500 MILLION	BETWEEN $500 MIL.-$1 BIL.	OVER $1 BILLION	TOTAL
Bonds						
Yes	46.7%	65.5%	72.7%	65.6%	59.3%	62.5%
No	33.3	27.6	13.6	25.0	33.3	27.6
No Response	20.0	6.9	13.6	9.4	7.4	9.9
Underwriting						
Yes	53.3%	65.5%	72.7%	65.6%	70.4%	67.1%
No	26.7	27.6	13.6	25.0	22.2	23.0
No Response	20.0	6.9	13.6	9.4	7.4	9.9

■ The institutions under $100 million feel less strongly on this point than do the other size categories whose responses were uniformly similar. Institutions display a desire to achieve scale economies even greater than those provided by their equity trading volume. A difficulty exists, though, in that the bond and equity departments within a securities firm do not always integrate their selling to any particular institution and inevitably view themselves as separate profit centers. Institutions over $1 billion are more inclined to stress underwriting (70%) than bonds (59%) in measuring the profitability of a firm's equity relationship since some underwriting activity involves the distribution of equity securities.

7 If you had to budget hard dollars for most approximately what percentage of your

BY TYPE OF INSTITUTION

	BANK TRUSTS	INSURANCE COMPANIES	INVESTMENT ADVISORS	PENSION FUNDS	MUTUAL FUNDS	TOTAL
0	10.1%	6.3%	17.2%	21.4%	12.5%	11.8%
Less than 10%	1.4	9.4	3.4	0	25.0	4.6
Between 10-25%	27.5	21.9	44.8	28.6	12.5	28.9
Between 25-50%	34.8	46.9	27.6	21.4	25.0	34.2
Over 50%	13.0	12.5	6.9	7.1	12.5	11.2
100%	5.8	3.1	0	7.1	12.5	4.6
Don't Know	7.2	0	0	14.3	0	4.6

■ Most institutions responded that they would continue to purchase brokerage firms' research even if forced to do so on a hard dollar basis. However, only about 20% of those surveyed stated that they would pay over 50% of their current soft dollar budget. The majority of the remaining 80% believe they would pay 10-50% of the soft dollars now allocated for research in hard dollars.

outside research on a one to one basis,
current soft dollar research services would you continue?

BY SIZE OF INSTITUTION

	UNDER $100 MILLION	$100-$250 MILLION	$250-$500 MILLION	BETWEEN $500 MIL.-$1 BIL.	OVER $1 BILLION	TOTAL
0	20.0%	10.4%	22.7%	9.4%	7.4%	11.8%
Less Than 10%	6.7	3.4	0	0	9.3	4.6
Between 10-25%	26.7	24.1	9.1	28.1	40.7	28.9
Between 25-50%	20.0	31.0	50.0	37.5	31.5	34.2
Over 50%	13.3	10.4	13.6	18.8	5.6	11.2
100%	13.3	10.4	0	3.1	1.9	4.6
Don't Know	0	10.4	4.5	3.1	3.7	4.6

■In line with expectations, a much larger percentage of institutions under $100 million than of larger institutions would budget in hard dollars the full amount of their current soft dollar payment. Excluding the under $100 million institutions, there is a general consensus among categories that between 10% and 50% of current soft dollar payments would be budgeted. It is not possible to generalize about the smallest institutions, since 20% of their number would budget nothing in hard dollars and another 13.3% would budget the full amount of soft dollars now committed to research.

8 A number of changes are being discussed in including: the elimination of NYSE Rule 390; Securities Act; the development of a type of How well informed do you feel about the

BY TYPE OF INSTITUTION

	BANK TRUSTS	INSURANCE COMPANIES	INVESTMENT ADVISORS	PENSION FUNDS	MUTUAL FUNDS	TOTAL
Well Informed	10.1%	12.5%	17.2%	14.3%	25.0%	13.2%
Adequately Informed	43.5	37.5	44.8	57.1	75.0	45.4
Poorly Informed	46.4	43.8	37.9	28.6	0	40.1
No Response	0	6.3	0	0	0	1.3

■ Very few respondents, less than 15%, felt that they were well-informed regarding changes being discussed in the securities industry. This was true of all categories, with the exception of mutual fund respondents, 25% of whom felt well-informed about these issues. The remaining categories were fairly evenly divided between feeling adequately informed and poorly informed with the exception of respondents in the pension fund category. Almost 60% of these respondents felt adequately informed and 30% poorly informed. This in part may be explained by ERISA, which has placed pressure on pension fund managers to fully carry out their fiduciary responsibilities. One aspect of this may be awareness of structural changes in the investment process.

the securities industry, implementation of Section 11a of the consolidated limit order book, etc. proposed changes?

BY SIZE OF INSTITUTION

	UNDER $100 MILLION	$100-$250 MILLION	$250-$500 MILLION	BETWEEN $500 MIL.-$1 BIL.	OVER $1 BILLION	TOTAL
Well Informed	6.7%	10.3%	9.1%	12.5%	18.5%	13.2%
Adequately Informed	26.7	41.4	40.9	46.9	53.7	45.4
Poorly Informed	66.7	48.3	50.0	40.6	24.1	40.1
No Response	0	0	0	0	3.7	1.3

■The feeling of being well, or at least adequately informed is strongest among institutions over $1 billion (72%) and generally rises with portfolio size. An overwhelming percentage (67%) of institutions under $100 million feel poorly informed, compared to 40% for all institutions and 24% of the institutions over $1 billion.

9 Do you feel that elimination of Rule 390, which exchanges, would have a positive, negative or

BY TYPE OF INSTITUTION

	BANK TRUSTS	INSURANCE COMPANIES	INVESTMENT ADVISORS	PENSION FUNDS	MUTUAL FUNDS	TOTAL
Securities Prices						
Positive	26.1%	9.4%	13.8%	7.1%	0 %	17.1%
Negative	47.8	34.4	48.3	42.9	62.5	45.4
No Effect	21.7	53.1	31.0	35.7	37.5	32.2
Don't Know	1.4	3.1	0	7.1	0	2.0
No Response	2.9	0	6.9	7.1	0	3.3
Liquidity						
Positive	23.2%	18.8%	20.7%	0 %	12.5%	19.1%
Negative	58.0	56.2	58.6	57.1	62.5	57.9
No Effect	14.5	18.8	10.3	35.7	25.0	17.1
Don't Know	1.4	3.1	0	0	0	2.0
No Response	2.9	3.1	10.3	7.1	0	3.9
Institutional						
Positive	18.8%	21.9%	10.3%	7.1%	25.0%	17.1%
Negative	65.2	59.4	72.4	71.4	75.0	66.4
No Effect	8.7	9.4	6.9	14.3	0	8.6
Don't Know	2.9	3.1%	0	0	0	2.0
No Response	4.3	6.3	10.3	7.1	0	5.9
Institutional Investors						
Positive	31.9%	18.7%	17.2%	0 %	37.5%	23.7%
Negative	47.8	56.3	58.6	57.1	62.5	53.3
No Effect	13.0	12.5	13.8	35.7	0	14.5
Don't Know	2.9	3.1	0	0	0	2.0
No Response	4.3	9.4	10.3	7.1	0	6.6

restricts trading away from the securities no effect on the present market structure?

■ The majority of institutions reported that the elimination of Rule 390, which restricts trading in listed stocks away from the securities exchanges, would have a negative effect on securities prices, liquidity, brokerage firms and institutional investors. Nearly 60% of the institutions believed that elimination of Rule 390 would have a negative impact on stock market liquidity. Almost the same percentage held for all institutional categories. The remaining 40% of the respondents were almost equally divided between feeling that elimination would have a positive effect or no effect. Pension funds were the exception, with 35% reporting that it would have no effect and no respondents in this category reporting that the effect would be positive.

The responses to the question of the effect of elimination of Rule 390 on brokerage firms were overwhelmingly negative. Over 70% of respondents in both the investment advisor and pension fund categories and 60% of both bank trust and insurance company categories believed elimination would have a negative impact on brokerage firms. A surprisingly high number of respondents, almost 20%, felt the effect would be positive and less than 10% believed it would have no effect on brokerage firms.

Over half of the institutions felt that elimination of Rule 390 would have a negative impact on institutional investors, an unexpectedly high percentage. Bank trust departments were the only category in which less than 50% responded in this manner, and the variation was slight. Almost one-quarter of the respondents in all categories felt that elimination would have a positive effect on institutional investors and 15% reported that it would have no effect. Again, bank trusts responded in a slightly different way, with almost one-third of the firms in this category reporting that the effect would be positive.

Only with respect to securities prices did less than half of the responding institutions feel the overall effect of Rule 390's elimination would be negative. Slightly more than 30% felt it would have no effect on securities prices and less than 20% believed the effect would be positive. The majority of insurance companies, 53%, reported that elimination of Rule 390 would have no effect on securities prices, while bank trust, investment advisors and pension fund categories responded in an opposite manner. Slightly less than 50% of the respondents in these categories felt that the effect of elimination would be negative and 30%, on average, felt it would have no effect on securities prices.

The institutional categories responded fairly consistently to each section of this question, indicating that there is a greater consensus of opinion regarding the anticipated effects of elimination of Rule 390 than was true for other issues explored in the survey. Respondents understand clearly that elimination would result in greater concentration in the securities industry.

BY SIZE OF INSTITUTION

	UNDER $100 MILLION	$100-$250 MILLION	$250-$500 MILLION	BETWEEN $500 MIL.-$1 BIL.	OVER $1 BILLION	TOTAL
Securities Prices						
Positive	40.0%	17.2%	18.2%	12.5%	13.0%	17.1%
Negative	33.3	55.2	50.0	46.0	40.7	45.4
No Effect	26.7	20.7	13.6	37.5	44.4	32.2
Don't Know	0	0	9.1	0	1.9	2.0
No Response	0	6.9	9.1	3.1	0	3.3
Liquidity						
Positive	33.3%	13.8%	13.6%	18.8%	20.3%	19.1%
Negative	46.7	72.4	59.1	62.5	50.0	57.9
No Effect	13.3	6.9	9.1	15.6	27.8	17.1
Don't Know	0	0	9.1	0	1.9	2.0
No Response	6.7	6.9	9.1	3.1	0	3.9
Brokerage Firms						
Positive	6.7%	6.9%	13.6%	15.6%	27.8%	17.1%
Negative	80.0	75.9	63.6	78.1	51.9	66.4
No Effect	6.7	10.3	0	3.1	14.8	8.6
Don't Know	0	0	9.1	0	1.9	2.0
No Response	6.7	6.9	13.6	3.1	3.7	5.9
Institutional Investors						
Positive	40.0%	13.8%	22.7%	28.1%	22.2%	23.7%
Negative	40.0	58.6	50.0	62.5	50.0	53.3
No Effect	13.3	17.2	4.5	6.3	22.2	14.5
Don't Know	0	3.4	9.1	0	0	2.0%
No Response	6.7	6.9	13.6	3.1	5.6	6.6

■Institutions of different size reveal a similar, largely negative attitude toward eliminating Rule 390. Institutions under $100 million provided a major exception, however. A surprising 40% of these institutions feel elimination of Rule 390 would have a positive effect on securities prices. There is general agreement, even among the smallest institutions, that liquidity would decline without Rule 390. It seems likely that declining liquidity would adversely affect securities prices, and the distribution of answers is suggestive of confusion on this point. A large majority (80%) of the smallest institutions feel brokerage firms would suffer, while they are evenly divided on the potential impact on institutional investors. Except for the smallest size category, at least half of the respondents believe that the elimination of Rule 390 would be harmful to institutional investors. The contradiction in answers to this question by the smallest institutional category indicates some confusion about the implications of Rule 390.

10 Has the decline in the number of brokerage firms had a positive, negative, or no effect on:

BY TYPE OF INSTITUTION

	BANK TRUSTS	INSURANCE COMPANIES	INVESTMENT ADVISORS	PENSION FUNDS	MUTUAL FUNDS	TOTAL
Institutional Investors						
Positive	11.6%	12.5%	3.4%	14.3%	25.0%	11.2%
Negative	34.8	28.1	48.3	21.4	12.5	33.6
No Effect	52.2	59.4	44.8	64.3	62.5	53.6
No Response	1.4	0	3.4	0	0	1.3
Liquidity						
Positive	7.2%	6.3%	3.4%	7.1%	12.5%	6.6%
Negative	40.6	50.0	58.6	50.0	25.0	46.0
No Effect	49.3	43.8	37.9	35.7	62.5	45.4
No response	2.9	0	0	7.1	0	2.0
Brokerage Firms						
Positive	36.2%	28.1%	27.6%	42.9%	50.0%	34.2%
Negative	47.8	40.6	55.2	28.6	25.0	44.7
No Effect	11.6	25.0	10.3	21.4	25.0	15.8
No Response	4.3	6.3	6.9	7.1	0	5.3
Cost of Raising Capital						
Positive	10.1%	3.1%	3.4%	14.3%	0 %	7.2%
Negative	36.2	18.8	51.7	28.6	25.0	34.2
No Effect	49.3	68.8	41.4	50.0	75.0	53.3
No Response	4.3	9.4	3.4	7.1	0	5.3

The survey included a question on whether concentration in the securities industry and the decline in the number of firms has had a positive, negative or no effect on liquidity, brokerage firms, institutional investors and the cost of raising capital. Institutions are almost equally divided on whether the contraction which has taken place in the industry during the last few years has had a negative effect or no effect on liquidity. It is interesting that nearly 60% of investment advisors, which tend to be smaller than bank trust departments, believe the ongoing concentration in the securities industry has had a negative effect on liquidity. On the other hand, 50% of bank trust departments, with much more commission dollars to pay out, believed that the decline in the number of firms has had no effect on liquidity.

The variation in responses to the question of the effect of the decline on the brokerage firms themselves was partly dependent on how the question was interpreted. Some institutions thought it referred to the remaining firms and, presumably assuming that commission dollars per firm have risen as concentration increased, answered that the effect has been positive. Other respondents believed that the question referred to firms which have merged or been liquidated and responded that the effect has been negative. The majority of pension and mutual fund respondents felt that the effect had been positive, while the majority of bank trusts, insurance companies and investment advisors felt that securities firms have been negatively affected by the decline in the number of firms.

An overwhelming number of institutions felt that the decline in the number of broker/dealers has not affected them adversely. Investment advisors were the one category in which almost 50% of the respondents answered that the effect was negative. This distribution is consistent in that investment advisors were the only category in which over 50% of the respondents believed that the effect of the decline had a negative influence on both liquidity and the cost of raising capital. The responses of the other categories indicated confusion over the cause-and-effect relationship between concentration, liquidity and the cost of capital. While many respondents believed the effect of concentration and the decline in the number of brokerage firms was negative on either the cost of capital or liquidity, these effects were not related to each other or to institutional investors themselves.

Approximately 35% of all respondents felt the effect of the decline in the number of brokerage firms had a negative effect on the cost of raising capital, and over 50% believed it had no effect. As previously noted, the majority of investment advisors felt the cost of raising capital increased as a result of the decline. Almost three-fourths of the respondents in the mutual fund category believed the cost of capital was unaffected, and a slightly lower percentage of insurance companies and 50% of pension fund respondents answered similarly.

BY SIZE OF INSTITUTION

	UNDER $100 MILLION	$100-$250 MILLION	$250-$500 MILLION	BETWEEN $500 MIL.-$1 BIL.	OVER $1 BILLION	TOTAL
Institutional Investors						
Positive	0 %	17.2%	13.6%	9.4%	11.1%	11.2%
Negative	33.3	31.0	59.1	34.4	24.1	33.6
No Effect	66.7	48.3	27.3	56.2	63.0	53.9
No Response	0	3.4	0	0	1.8	1.3
Liquidity						
Positive	0	10.3%	4.5%	9.4%	5.6%	6.6%
Negative	46.7	37.9	54.5	56.2	40.7	46.0
No Effect	53.3	51.7	36.4	31.3	51.9	45.4
No Response	0	0	4.5	3.1	1.8	2.0
Brokerage Firms						
Positive	13.3%	27.6%	27.3%	37.5%	44.4%	34.2%
Negative	60.0	51.7	63.6	31.3	37.0	44.7
No Effect	20.0	17.2	4.5	25.0	13.0	15.8
No Response	6.7	3.4	4.5	6.2	5.6	5.3
Cost of Raising Capital						
Positive	0 %	10.3%	4.5%	6.2%	9.3%	7.2%
Negative	46.7	34.5	54.5	25.0	27.8	34.2
No Effect	53.3	55.2	36.4	59.4	55.6	53.3
No Response	0	0	4.5	9.4	7.4	5.3

■The different size categories have similar perceptions about the impact of securities industry contraction on themselves, on liquidity, on broker/dealers, and on the cost of raising capital. An exception is provided by institutions in the $250-$500 million range, which are inclined to see the most negative effects of industry contraction. Significantly more than half of these institutions consider brokerage industry contraction to have had negative effects on all four of the above variables.

It is also interesting to note that only 40.7% of the institutions above $1 billion believe that Wall Street's contraction has had negative effects on liquidity. This reflects the greater availability of broker-supplied liquidity to the largest institutional customers.

APPENDIX A

The "Survey" had 152 respondents. For the mutual fund category there were only eight responses. Therefore, in looking at the answers given by mutual funds, we have to be cautious in evaluating their responses because of the small sample. The breakdown of the number of institutions by type and size category is as follows:

By Type of Institution

	BANK TRUSTS	INSURANCE COMPANIES	INVESTMENT ADVISORS	PENSION FUNDS	MUTUAL FUNDS	TOTAL
Number of Responses	69	32	29	14	8	152

By Size of Institution

	UNDER $100 MILLION	$100-$250 MILLION	$250-$500 MILLION	BETWEEN $500 MIL.-$1 BIL.	OVER $1 BILLION	TOTAL
Number of Responses	15	29	22	32	54	152

SIA INSTITUTIONAL INVESTOR SURVEY

1. Which of the following best describes the attitude of your organization towards the investment research service of brokerage firms?
   - An important and additional source of new investment ideas _____
   - An opportunity to confirm your internal research and analysis _____
   - Nice to have, but not essential to your internal work _____

2. Do you pay higher commissions for research?
   - Yes definitely _____
   - Occasionally, but only very modestly _____
   - Unnecessary, as we get it anyway _____
   - Our lawyers still studying Section 28 (e) of the 1934 act _____

3. Do you feel that a strong statement by one of the following would help clarify the protection for "paying up" of Section 28 (e)?
   - Comptroller _____
   - SEC _____

4. How important do you think Wall Street's capital committing activities are toward providing liquidity for securities transactions in equities and fixed income securities?

	EQUITIES	FIXED INCOME
• Extremely important		
• Important		
• Helpful, but not important		
• Unimportant		

5. Do broker/dealers who presently commit capital to principal activities provide sufficient liquidity relative to pre-May day?

	UNDER 10,000 SHARES	10-25,000 SHARES	OVER 25,000 SHARES
• Large capitalization companies			
• Small capitalization companies			
• OTC companies			

6. Do you ask that bond business and/or underwriting should also be included in measuring the profitability of a firm's equity securities relationship?

7. If you had to budget hard dollars for most outside research on a one to one basis, approximately what percentage of your current soft dollar research services would you continue?

8. A number of changes are being discussed in the securities industry including the elimination of NYSE Rule 390, implementation of Section 11a of the Securities Act, the development of a type of consolidated limit order book, etc. How well informed do you feel about the proposed changes?

   - Well informed _____
   - Adequately informed _____
   - Pooly informed _____

9. Do you feel that elimination of Rule 390, which restricts trading away from the securities exchanges, would have a positive, negative or no effect on the present market structure?

	POSITIVE	NEGATIVE	NO EFFECT
• Securities Prices			
• Liquidity			
• Brokerage firms			
• Institutional Investors			

10. Has the decline in the number of brokerage firms had a positive, negative, or no effect on:

	POSITIVE	NEGATIVE	NO EFFECT
• Institutional Investors			
• Liquidity			
• Brokerage firms			
• Cost of Raising capital			

11. Is there any change you favor?

Name of institution

_____

Type of institution

_____

Assets under management

_____

Name of individual responding

_____